Minutes of the Special Compensation Committee Meeting
of the Board of Directors of CareFirst, Inc. held April 20, 2001

Members Present: Joe Haskins, Ed Baran (via telephone), Hanan Sibel

Also Present: Dan Altobello, William Jews, Sharon Vecchioni, Don Barnes Of the HayGroup, Mark Muedeking, Piper, Marbury and Rudnick

At the request of the committee, Don Barnes of the HayGroup presented an executive merger incentive plan through the use of a handout which was shared with the committee and which is made a part of these minutes with the following purpose:

- Align the interests of management with the interests of the stakeholders

- Focus the attention of management on maintaining and maximizing value for the stakeholders

- Ensure that management has the necessary incentives to drive the sale process through conclusion for the benefit of the stakeholders

Mr. Barnes noted that he and his staff analyzed a broad array of compensation data. The analysis included the following data and exhibits:

- Total direct compensation of Top 5 executives at Trigon and Wellpoint analyzed – both companies have aggressive long-term incentives.

- Cerulean Companies, Inc. (formerly BCBS of Georgia; merged with Wellpoint) is most similar to CareFirst. Merger retention bonuses of executive officers were reviewed.

- Current Change of Control Provisions for CareFirst executives reviewed.

- Compilation of 13 health care mergers prepared by Piper Marbury Rudnick and Wolfe LLP were analyzed.

- 2000 Executive Compensation Advisory Services Survey of Merger and Acquisition Retention Awards reviewed. This survey has 130 organizations in it – 23% are financial services or healthcare companies.

In addition, Mr. Barnes noted that another executive compensation firm, Frederic W. Cook & Company, Inc. conducted an independent analysis using three different approaches:

I. Direct translation of the Cerulean transaction:

- The performance-plan payment represented 0.94% of the transaction proceeds.
- $1.0 billion x 0.94% less $1.3 million (amount received under CareFirst's long-term plan over the last three years) equals $8.1 million.

II. Comparison to other CEO transaction-related bonuses:

- Among companies outside the healthcare industry, these bonuses are 400% to 500% of base salary
- Frederick W. Cook first calculated $4.0 million of award value
- They believe that the executives also received increased value in their outstanding stock options as a result of any takeover premium, special bonuses, and possible consulting contracts – if terminated.
- These additional items potentially add, on a conservative basis, an additional 50% of the total
- The final value is $6.0 million

III. Comparison to stock option gains of CEOs in similarly-sized, publicly-held peer companies:

- The median total compensation for the most recent 5-year period is $19.7 million
- Because CareFirst is a private company, this value was discounted by 20% to $15.7 million.
- Mr. Jews' total compensation for this same period totaled $7.3 million.
- The difference between the two figures is $8.4 million. This is one way to measure the reasonableness of a sale incentive.

The average of the three approaches ($8.1 million, $6.0 million, and $8.4 million) is $7.5 million.

The HayGroup analyzed equity-based compensation transactions based on 13 health care mergers from 1996-2001:

- The range in transactions were from $200 million to $2.2 billion
- Median compensation as a percent of transaction paid to executive officers (including CEO) – 2.38% (range generally from 0.33% to 4.50%)
- Median compensation as a percent of transaction paid to CEO – 0.88% (range generally from 0.19% to 3.63%)
- All 13 transactions involved public companies
- A reduction factor of 20% is commonly used for a private company like CareFirst
- Median compensation reduces to 1.90% for executive officers (including CEO)
- Median compensation reduces to 0.70% for CEO

Mr. Barnes then compared these results with the Cerulean Companies transaction, which is the most similar to a potential CareFirst situation. The following comparison was made:

For a $1.0 billion transaction:

- It would be reasonable for the Executive officers (including CEO) to receive $19.0 million (Cerulean received $17.9 million, for a $700 million transaction)

- It would be reasonable for the CEO to receive $7.0 million (Cerulean received $6.6 million, for a $700 million transaction)

In addition to the above, Mr. Barnes noted that it is essential to retain other key management members as discussed in the prior compensation committee meeting.

- A multiple of base salary (0.5 to 1.0) is commonly used for this purpose.

- Therefore, to complete the transaction:
  — All key executives (67 employees) receive $25.1 million (Cerulean awarded $30.0 million, for a $700 million transaction)

  — In addition, Cerulean awarded another $17.9 million to other employees, In total, Cerulean awarded $47.9 million (6.84%) in merger retention bonuses to 247 employees

Based on the analysis, the following recommendations were made to the committee by Mr. Barnes:

**Recommendations**

Adopt the percentages of merger consideration shown in *Exhibit VI* of the HayGroup presentation. This produces highly competitive awards and encourages the executive team to maximize the merger consideration. The final decision is not totally driven by the merger consideration, as less quantifiable social issues are also very important. But to be competitive, as is seen in the Cerulean transaction, the awards should be consistent with *Exhibit VI.*

Based on the 2000 Executive Compensation Advisory Services (ECAS) Survey of Merger and Acquisition Retention Awards, the following retention bonuses are recommended:

| Position | Retention Bonus |
|---|---|
| SVPs | 1.0 x Base Salary |
| Selected VPs | 1.0 x Base Salary |
| Others Selected | 0.5 x Base Salary |

These bonuses are intended to retain the executives for the 18-24 months involved in a typical merger. The bonuses approximate the Median (50th Percentile) of the ECAS Survey for retention awards. This survey has 130 organizations in it, and all have gone through a recent merger. They are mostly for-profit companies in a variety of industries – including health care. CareFirst is generally in the middle of the survey group in terms of revenue. Further details concerning this survey are shown in *Exhibit VIII.*

Assuming a merger consideration of $1.0 billion and maximum payouts, it is recommended to have the following awards for *all* key executives:

| Number | Title | Award |
|---|---|---|
| 1 | CEO | $7,000,000 |
| 6 | EVP | $12,000,000 |
| 6 | SVP | $1,319,811 |
| 20 | VP | $3,138,757 |
| 34 | Director | $1,653,505 |
| 67 | | $25,112,073 |

The awards for the CEO and the EVPs vary with the merger consideration. The others are based on multiple of base salary and not subject to change.

The total amount represents 2.5112% of the merger consideration. Cerulean awarded $30,027,030 (4.2896% of the merger consideration) to its key executives. In addition, Cerulean awarded another $17,862,970 to other employees. In total, Cerulean awarded $47,890,000 (6.8414% of the merger consideration) in merger retention bonuses.

**Following this thorough analysis and presentation, the committee approved the recommendations.** Mr. Joe Haskins requested that Mr. Barnes and Mr. Mark Muedeking develop a presentation to be shared at the April 26th Board of Directors meeting. The committee will review this presentation during the April 26th Compensation Committee meeting.

Respectfully submitted,

Sharon J. Vecchioni

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